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Events DC Performance Evaluation

October 30, 2015

Audit Team:
Lilai Gebresellasie, Auditor-in-Charge
Amy Wu, Analyst
Markia Yates, Analyst
Joshua Stearns, Audit Supervisor

A Report by the Office of the District of Columbia Auditor
Kathleen Patterson, District of Columbia Auditor

Office of the District of Columbia Auditor

October 30, 2015

Events DC Performance Evaluation

Why ODCA Did This Audit

This review was conducted in accord with D.C. Code § 10-1203.05(a), which requires the Office of the District of Columbia Auditor (ODCA) to audit the "accounts and operations of the (Washington Convention and Sports) Authority" at least once every three fiscal years.

What ODCA Recommends

1. Events DC should investigate the metrics included here to determine if there are any areas where they can improve their financial or operational performance. Additionally, Events DC should continue to perform this type of analysis in the future, using either the International Association of Venue Managers' report or another comparable source of data.
2. We recommend that Destination DC's (DDC) investigate the differences ODCA has identified in Appendix 1 to determine if there are any areas where they can improve their marketing and sales strategy. Additionally, DDC should continue to perform this type of analysis in the future, using either the Destination Marketing Association International's marketing and sales study or another source of compiled data for the destination marketing industry.

For more information regarding this report, please contact Anovia Daniels, Communications Analyst/ANC Outreach, at Anovia.Daniels@dc.gov or 202-727-3600.

What ODCA Found

The Washington Convention and Sports Authority (WCSA) was formed in 2009 as a merger of the Washington Convention Center Authority and the DC Sports and Entertainment Commission. WCSA also does business as Events DC. The Events DC charter calls for the organization to increase economic development in the District through the promotion of sports and entertainment offerings as well as conventions, meetings, and other special events. It operates the Walter E. Washington Convention Center (WEWCC), RFK Stadium, the DC Armory, and Carnegie Library. Events DC is actively engaged in the planning and support of events at these (and other) locations, which annually attract thousands of attendees to locations around the city, boosting economic activity and tax revenue.

Operations at Events DC are funded primarily through a dedicated portion of the hotels and restaurant taxes in the District. Additional revenue comes from conventions and meetings held at Events DC venues, including the WEWCC.

We conducted a risk assessment of operations at Events DC and found that management appears to have taken adequate steps to mitigate their risks. Consequently, we did not proceed with a full and complete audit of Events DC. Instead, we focused on a comparison of operations at the WEWCC with its competitor convention centers around the country. We found that Events DC management should look closely at expenses and revenues at this venue to see if they can improve the profitability of this key facility within the District of Columbia. On average, it appears that the WEWCC operates at a much larger annual loss than other convention centers.

ODCA is reissuing this report after correcting an error pertaining to the number and size of convention centers used for comparison in terms of revenue, expenditures and other metrics reported in Figure One. The original report issued October 20, 2015, stated that our comparisons were limited to other large centers rather than those statistics related to all centers reported by the International Association of Venue Managers. We regret the error.

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Background

As anyone who lives or works in the District of Columbia knows, travel and tourism make up an important part of the local economy. According to a recent report, the District's tourism industry continued to expand in 2013[1], the fourth consecutive year for which the number of visitors increased. More than 19 million Americans visited the nation's capital in 2013 and these visitors spent $6.7 billion. Travel and tourism in Washington, DC supports approximately 75,000 jobs and workers in those jobs earn more than $3 billion in wages annually. It is within the context of these impressive statistics that the Office of the District of Columbia Auditor undertook a review of the accounts and operations of the Washington Convention and Sports Authority (WCSA), a component unit of the District government. WCSA is also known by the name Events DC.

The Events DC charter calls for the organization to increase economic development in the District through the promotion of sports and entertainment offerings as well as conventions, meetings, and other special events. It operates the Walter E. Washington Convention Center (WEWCC), RFK Stadium, the DC Armory, and Carnegie Library. Events DC is actively engaged in the planning and support of events at these (and other) locations, which annually attract thousands of attendees to locations around the city, boosting economic activity and tax revenue.

Events DC has contracted with Destination DC, a private non-profit corporation, to provide marketing and promotion activities for the WEWCC and for the District as a whole. Through its marketing and sales activities, Destination DC seeks to influence organizations to hold their meetings and conventions in DC.

[1] The most recent year for which complete figures are available.

Objectives, Scope and Methodology

This review was conducted in accord with D.C. Code § 10-1203.05(a), which requires the Office of the District of Columbia Auditor (ODCA) to audit the "accounts and operations of the (Washington Convention and Sports) Authority" at least once every three fiscal years.

Scope

We examined operations and records at Events DC for the period October 1, 2013 through September 30, 2014.

Objectives & Methodology

As the statutory requirement for this engagement was broad, ODCA began the review by performing a risk assessment of Events DC's operations in order to search for high risk, high impact areas to examine. In order to gather this information, we conducted numerous interviews with management at the organization and reviewed internal control documentation as well as internal policy manuals that describe how events are supposed to be planned and executed.

The risk assessment process started by identifying all of the activities that Events DC engages in as it hosts various events throughout the city. This included every facet of the operations from coordinating event security to measuring customer satisfaction. For each of these activities, we gathered a list of potential risks that could prevent Events DC from properly performing the activity. Finally, we assigned an impact and probability rating to each risk.

After reviewing the risk assessment, we concluded that there were no areas of improperly managed high risk in Events DC's operations. In addition, we did not uncover any signs of waste, fraud or abuse. As a result, we did not feel that continuing with a full audit was necessary. Instead, we chose to focus on three areas of Events DC's activity where we determined that our analysis could result in information useful to Events DC management and to the Council of the District of Columbia.

Those three areas were:

1. A comparison of the Walter E. Washington Convention Center's (WEWCC) operational performance with data compiled by the International Association of Venue Managers (IAVM). The IAVM is a trade organization that represents public assembly venues

including auditoriums, arenas, convention centers, stadiums, and performing art centers.

2. A comparison of Events DC's marketing and sales strategy with benchmarks compiled by Destination Marketing Association International (DMAI). The DMAI is a global trade association for organizations officially assigned the responsibility of developing a travel and tourism strategy for a city, locality or region.
3. An analysis of the recently completed Marriot Marquis hotel's impact on the WEWCC. Specifically, the Audit Team wanted to determine if the addition of this hotel has increased bookings for the convention center.

Analysis of Financial and Operational Performance

The Office of the District of Columbia Auditor (ODCA) obtained the International Association of Venue Managers (IAVM) benchmarking report entitled "2013 Operating Expense and Revenue Survey." The IAVM's report is based on a survey of 569 member convention centers from around the country. There were 74 respondents to the survey, including 13 that IAVM categorized as "large", meaning the venue had over 500,000 square feet of exhibition space.[2] The survey included information about revenues, expenses, number of events, number of attendees, and other performance metrics for the convention centers.

It is important to note that the IAVM data includes small, medium, and large convention centers from small and large cities around the country. Costs in these other cities may be different than those in Washington, DC. While the report authors caution against using the average costs and expenses for comparative purposes because of the modest survey response rate, we believe benchmarking the District against other venues offers useful information both to management and to the Council of the District of Columbia.

Such an analysis is particularly important as Events DC receives a large subsidy in District taxes every year (over $100 million in fiscal year 2014). With funding of this size it is important to ensure that resources are managed wisely.

The IAVM report includes several dozen performance metrics, including information about revenues and expenses broken down into many different categories. The figure below includes 9 of these metrics and shows the convention center average (for all size convention centers) as reported in the IAVM report and the corresponding information for the DC convention center.

[2] The cities with large convention centers that responded were: New Orleans, Phoenix, Washington, DC, Anaheim, San Diego, Indianapolis, Orange County, Dallas, Las Vegas, Atlanta, Houston, Hong Kong, and Boston.

Figure 1

Financial & Operational Performance Metrics

(Notes defining acronyms are included below Figure 1)

Performance Metrics	Convention Center Average, 2013[3]	Walter E. Washington Convention Center, 2014
Liability Insurance Cost (per RV)	$.21	$.12
Property Insurance Cost (per TGBSF)	$.33	$.29
Property Insurance Cost (per RV)	$1.22	$.69
Rent Revenues (per TRSF)	$11.01	$8.53
Rent Revenues (per TROSF)	$20.95	$14.49
Total Expenses (per TRSF)	$37.15	$68.85
Total Expenses (per TROSF)	$79.90	$116.89
Total Revenues (per TRSF)	$36.04	$20.93
Total Revenues (per TROSF)	$74.72	$35.54

RV – Per $ million in building replacement value.
TRSF – Total rentable square foot.
TROSF – Total rentable occupied square foot, or total rentable area multiplied by occupancy rate.
TGBSF – Total gross building square foot.

Source: Convention Center Average numbers were obtained from the IAVM's benchmarking report entitled "2013 Operating Expense and Revenue Survey." The Walter E. Washington Convention Center's numbers were obtained from Events DC's staff and 2014 Annual Report. In some cases, ODCA made calculations using those figures.

Of particular note are the convention center's expenses and revenues in comparison to the industry average. Events DC operates the WEWCC at a substantial loss each year. Since it appears that their revenues per square foot are substantially lower, on average, and that their expenses per square foot are substantially higher, on average, this could indicate there is significant room to improve the convention center's bottom line. Also, note that when comparing revenues and expenses per total rentable square foot or per total rentable occupied square foot, the industry average shows a small loss, whereas the WEWCC shows a significant loss. The average revenue per TRSF is $36.04; the revenue per TRSF for the WEWCC is $20.93. The expenses gap is more acute: $37.15 per TRSF for all centers and $68.85 per TRSF for the WEWCC. The loss comparison: $1.11 for all centers and $47.92 for the WEWCC.

[3] The original October. 20, 2015, version of this report incorrectly stated that this data pertained solely to the 13 "large" convention centers.

Convention Center Average

Revenues per TRSF	$	36.04
Expenses per TRSF	$	37.15
Loss per TRSF	**$**	**1.11**

Walter E. Washington Convention Center

Revenues per TRSF	$	20.93
Expenses per TRSF	$	68.85
Loss per TRSF	**$**	**47.92**

Of the additional metrics included in Figure 1, several others point to possible areas for examination and review by Events DC management. They include Liability Insurance Cost per RV and Property Insurance Cost per RV.

Events DC is paying much less than its competitors for both liability and property insurance. This could mean that the organization is exceptionally good at negotiating a low rate. Or, it could mean that it is under-insured. We did not obtain information about the value of any liability or property insurance policies owned by Events DC.

Finally, it appears that other convention centers around the country are able to charge more for their space. It is possible that Events DC could raise their rates and still attract a similar number of conventions and meetings.

While most of the data in the IAVM report is presented in aggregate form, some metrics are broken down by small, medium, and large convention centers.[4] One such metric that is reported for all venues as well as for venues grouped by size is occupancy. The occupancy rate is the percent of all rentable space in the convention center that is in use (or rented) over the course of the year. Events DC reports that their occupancy rate for the WEWCC in 2014 was 48%. In the IAVM survey, other large convention centers reported an average occupancy rate of 59%.

Events DC should investigate the metrics included here to determine if there are any areas where they can improve their financial or operational performance. Additionally, Events DC should continue to perform this type of analysis in the future, using either the IAVM's report or another comparable source of data.

[4] Defined as those with less than 100,000 square feet, between 100,000 to 500,000 square feet, and over 500,000 square feet of exhibition space, respectively.

Analysis of Marketing Operations

To learn more about how cities market themselves as meeting and conventions hosts, we obtained a marketing and sales study performed by Destination Marketing Association International (DMAI). DMAI is a trade group whose member organizations are known as destination marketing organizations (DMOs). DMOs are responsible for marketing their location for meetings and conventions or other major events.

The study, entitled “2013 Convention Sales & Marketing Activities Study,” was compiled based on a survey of 180 DMOs.[5] These organizations were asked to report on the marketing activities they had used in the past year. The purpose of the study was to “provide DMOs with a unique and invaluable informational resource to guide their [meetings and convention] sales, marketing and services programs, budgeting and planning.”

Destination DC’s (DDC) marketing agreement with Events DC outlines DDC’s role in Events DC’s marketing and sales process. Under the agreement, DDC is to:

> “… (i) market and sell meetings and conventions for the Walter E. Washington Convention Center (. . .); (ii) market and promote the District as a destination; and, (iii) increase revenue to the District and the Authority by maximizing sales of hotel rooms and restaurant meals (. . .)”

We interviewed management at DDC to learn more about their marketing and sales processes.

Highlights from our analysis of DDC’s marketing strategies are included in Appendix 1, attached at the end of this report. Generally speaking, DDC’s efforts appear consistent with those of their peer organizations. One area that appears ripe for improvement is in the use of social media. The analysis includes answers to the following questions:

- Does DDC work with its local government economic development entity?
- How does DDC generate leads for Events DC?
- Does DDC offer a comprehensive set of services to event planners?
- What types of marketing support does DDC provide?
- How does DDC select events to host?

Our analysis revealed some differences between the practices noted in DMAI’s report and DDC’s marketing/sales strategy but we did not view any

[5] DestinationDC was one of the organizations surveyed and their responses are included in the report. (All responses were reported in the aggregate).

of the identified differences as serious deficiencies. In some cases we agreed with DDC's departure from the practices listed in the DMAI report. For example, one of the practices listed in the DMAI report involves DMOs arranging for officials from local government economic development agencies to meet with trade show exhibitors at events in the convention center. DDC noted that although it would make the necessary introductions should its customers request them, it might appear intrusive to make these arrangements without being asked.

We recommend that DDC investigate the differences ODCA has identified in Appendix 1 to determine if there are any areas where they can improve their marketing and sales strategy. Additionally, DDC should continue to perform this type of analysis in the future, using either the DMAI's marketing and sales study or another source of compiled data for the destination marketing industry.

Opening of the Marriott Marquis Hotel

Built partially with District support, the Marriott Marquis Hotel opened next door to the WEWCC in May 2014. Events DC's website states that the "opening of the Marriott Marquis will present the Walter E. Washington Convention Center with the opportunity to attract more international meetings and conventions in the years ahead." The expectation of Events DC and the District is that the hotel will increase the number of meetings at the convention center, especially for larger scale events that involve many attendees who travel to DC from out of town. These out of town visitors then spend money in the District on things like lodging, restaurants and entertainment.

We sought to determine whether the Marquis hotel has, in fact, attracted additional meetings and other events to the convention center. One way that Events DC tracks usage at the convention center is to track the number of hotel rooms blocked by event planners when organizing their meeting. ODCA obtained hotel booking data from Destination DC showing hotel rooms blocked for convention center events from 2013 to2017. This data includes both the number of peak rooms[6] and total rooms[7] for each event and includes rooms booked at all hotels in the city in connection with an event at the WEWCC. The data is included below in Figure 2.

It is important to note that Events DC starts booking events at the WEWCC two years in advance. Space continues to be reserved as late as even a few months in advance, but the larger meetings are all booked well in advance. Consequently, changes in operations do not usually result in immediate changes in bookings. Instead, it will take a couple of years before increased capacity (for example) can result in increased bookings.

ODCA found a relatively steady number of bookings for the period 2013-2016, with a substantial increase of approximately 25 percent in 2017. As this comes approximately two years after the opening of the hotel, it seems likely that the Marriott is having its intended effect on convention center bookings.

[6] A peak room night is the night when the maximum number of credited hotel rooms is occupied by people attending the event. There is only one peak night for each event.
[7] Total hotel room nights is the number of sleeping rooms blocked or occupied for an event multiplied by the number of nights each sleeping room was reserved or occupied. A credited room night is one room occupied for the event for one night. For example, if someone travels to DC for an event that lasts three days, and he checks in one day early and checks out one day late, his stay is credited for five room nights (early day + three event days + late day).

Figure 2

Peak Rooms and Total Rooms 2013-2017

Year	Peak Rooms	% Change from Prior Year	Total Rooms	% Change from Prior Year
2013	91,861	N/A	392,108	N/A
2014	84,999	-7%	374,957	-4%
2015	91,158	7%	401,942	7%
2016 (booked)	93,962	3%	422,776	5%
2017 (booked)	117,994	26%	528,355	25%

Conclusion

We found that Events DC operations appeared to be well-organized and that the organization was achieving its mission – to attract events to the District of Columbia. More people are visiting the District every year and the number of events booked at the Walter E. Washington Convention Center (WEWCC) appears to also be on the increase. This increased economic activity means more jobs, higher wages, and higher tax revenues for the District of Columbia.

The recent opening of the Marriott Marquis hotel appears to be a success story so far. The presence of this large hotel, immediately adjacent to the Convention Center, is making it a more attractive venue for the conventions and meetings that bring in large numbers of attendees. Events DC reports increased bookings over the next couple of years, which should mean that area businesses and workers will benefit from a healthier local economy.

In looking at summary data prepared by the International Association of Venue Managers, we learned that other convention centers around the country appear to be able to operate without large annual losses, when measured by total rentable square foot. Unfortunately, it appears as if Events DC is not able to operate the WEWCC in the same manner. There may be room for Events DC to improve their performance in this area.

We look forward to working with Events DC in the future to identify further areas for improvement in their stewardship of District tax dollars and assets.

Agency Comments

The Auditor appreciates the comments provided by Events DC on the draft report. We are pleased that Events DC agrees with our recommendations.

In their comments, Events DC states that by the International Association of Venue Managers (IAVM) report only included responses from 8 “large” convention centers but by our calculation there were 13. While Events DC rightly points out factors that could make the financial performance of large centers generally different from the performance of small or medium centers, we believe that it is still useful to the Council of the District of Columbia and the residents of the District as well as the leadership of the convention center itself to have information about how the Walter E. Washington Convention Center is performing in comparison to other convention centers. We appreciate the development and publication of the metrics as useful indicators of hospitality industry operations.

In addition, in our discussion of the financial performance of the convention center, we did not identify any “trends,” reporting only one year data for both the convention center average and the Walter E. Washington Convention Center.

Appendix I

We asked Destination DC (DDC) management to answer these questions and provide further explanation where necessary. Note: These examples represent a sample of DDS marketing/sales strategy and are not intended to encompass DDC's entire strategy.

Does Destination DC work with any local government economic development entity to:			
	Yes	**No**	**Comments/Examples**
a) Conduct joint sales missions domestically?		✓	Where the objectives of both organizations overlap, DDC will work with local government entities, like the District's Deputy Mayor for Economic Development. Historically they have engaged with these types of entities to promote the city. However, they have not conducted joint sales missions together. They did state that they would be willing to do so should the right opportunity present itself.
b) Arrange for economic development partners to meet with trade show exhibitors.		✓	Trade show exhibitors are at the event as customers, so DDC believes that it may appear intrusive if they invite other entities to the customer's event. However, DDC stated that if the event host or exhibitors specifically requested it, DDC would certainly do it.
c) Share international representation costs.		✓	DDC does work internationally to promote the city with other organizations, such as the DC Center in China. This includes jointly performing some sales activities to drive convention and leisure business to the District. However, they do not share costs.
d) Conduct joint sales missions internationally.	✓		Annually, DDC does a sales mission with the DC Center in China to drive potential convention and leisure business to the District.

Does DDC offer the following services to planners?			
	Yes	**No**	**Comments/Examples**
Welcome/Hospitality Desk.	✓		There is always a welcome desk in the convention center. DDC also does welcome desks at local airports for events where there are large groups of international attendees.
Meet and greet services.	✓		-
Registration support.	✓		Temporary staff can be hired for this function.
Assistance posting social media messages during event.		✓	DDC does have the ability to share the message over social media, but they do need a copy in advance of the event. They do not offer this service in real-time at the event.
Mobile-App/Microsite for attendees.		✓	They do not provide this service by default but where it has been requested, DDC has assisted with the development of microsites in the past.

Does DDC offer the following services to planners?			
	Yes	No	Comments/Examples
Local signage/banners (airport, downtown, etc.).	✓		Signage is permitted in certain areas, with others accessible by permit. Additionally, they are capable of providing this service at local DC airports.

Does DDC perform/use any of the following strategies/resources to generate leads for Events DC?			
	Yes	No	Comments/Examples
a) Sales mission/sales calls.	✓		DDC stated that this is their main source of leads and best opportunity to build relationship with their customers. According to DDC, direct contact with customers creates the greatest Return on Investment (ROI).
b) Industry trade shows, conventions, conferences.	✓		This continues to be a source of leads for DDC. These events also help DDC assess the potential size/scope of opportunities as they build relationships with their customers.
c) Social media.		✓	DDC does use social media to engage event participants and promote events but it does not necessarily use social media to generate leads.
d) Third-Party Partnerships.	✓		DDC has strategic partnerships with two organizations, Conference Direct and Helms Briscoe. These two organizations are amongst the largest sources of customer leads in the industry. These partnerships increase DDC's visibility and reach, including blog spots and customer events where DDC can provide information to event planners.
e) Site inspections/visits.		✓	Although some of DDC's customers do hold site inspections/visits before an event, at that stage in the sales cycle, the visit is more closely aligned with closing the lead, not generating it.
f) Email marketing.	✓		DDC produces a quarterly newsletter which is distributed electronically and which has produced leads for DDC in the past. The newsletter is distributed to over 5,000 meeting planners across the world.
g) Event sponsorship.		✓	-
h) Familiarity Trips (low-cost or free trip to familiarize customer with the destination and its services).	✓		This is a traditional method for showcasing the destination and its facilities.
i) Trade advertising.	✓		On occasion DDC will employ this method of advertising. For example, in FY 2015 DDC included Carnegie Library in a convention trade advertising publication.
j) Banner ads on other websites.		✓	Although there is some cobranding and marketing between DDC and other industry websites, they do not specifically pay for banner ads on other websites as they do not believe that the return on their investment will be high enough.

Does DDC perform/use any of the following strategies/resources to generate leads for Events DC?			
	Yes	**No**	**Comments/Examples**
k) Dedicated website.	✓		DDC venues are featured prominently on the Washington.org website along with numerous related links and articles.
l) B2B networking, sharing contacts.	✓		DDC both provides opportunities to other organizations and receives opportunities from some of those very same partners. For example, if a hotel chain can't host an event because it is booked or can't accommodate the size of the vent, they will contract DDC to provide them with the opportunity.

Does DDC offering following list of attendance marketing support?			
	Yes	**No**	**Comments/Examples**
Public relations support.	✓		DDC team does offer guidance on press releases and other public relations concerns for event attendees.
Liaison with city, state/province or regional affiliated groups, gov't. agencies.	✓		DDC serves as the city's liaison and each event is assigned a convention services manager.
Event information on DDC's website.	✓		-
Social responsibility project connections for attendees.	✓		-
Assistance securing event speakers/keynotes.	✓		DDC will assist in connecting event planners to various talent vendors that can help in securing speakers, but DDC does not directly approach the talent.
Cash payments/rebates/marketing support fees.		✓	No, however, occasionally a partnering hotel will offer a hotel room rebate back to the group organizer.
Small logoed promotional items.	✓		DDC has relationships with several vendors to provide these items in bulk.
Entertainment, sports, cultural discounts.	✓		DDC operates a "Show Your Badge" program, where DDC provides attendees with information and discounts on local entertainment, museums and restaurants.
Travel and/or lodging incentives and discounts.	✓		DDC does employ some of these types of relationships.
Event ads paid for by Destination DC or Events DC		✓	-

Has DDC used the following criteria to select events to host?			
	Yes	**No**	**Comments/Examples**
Select events with a certain combination of past economic impact and total hotel room nights.	✓		DDC uses these criteria for evaluating business opportunities. DDC also meets with its hotel chain partners and the District's convention center management to evaluate business opportunities for the future.
When the event meets/seasonality of the event.	✓		Availability, past experiences with the entity, seasonality and the rate structure for the event all factor into the decision to host the event.
Events that sign a long-term agreement to anchor to the destination or add the destination to a set rotation of destinations.	✓		Large citywide conventions are particularly important to DDC. DDC attempts to maximize their impact on the city by optimizing when/where they occur.
All events with a certain level of total hotel room nights in the past. ***	✓		This key industry metric plays an important part in evaluating past events and searching for new customers. DDC uses DMAI research tools to search for events that have historically exceeded DDC's threshold for this metric.
All events with a certain level of past economic impact.	✓		DDC uses its Customer Relationship Management (CRM) system to research events that have achieved its threshold for economic impact in the past.
All events with a certain level of past attendance.	✓		DDC uses DMAI research tools to search for events that have historically exceeded DDC's threshold for this metric.

*****Total hotel room nights is the number of sleeping rooms, blocked or occupied for an event, multiplied by the number of nights each sleeping room was reserved or occupied. A credited room night is one room occupied for the event for one night. If I travel to DC for an event that lasts three days, and I check in one day early and check out one day late, my stay is credited for five room nights (early day + three event days + late day).

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801 Mount Vernon Place NW
Washington, DC 20001

P 202.249.3000
F 202.249.3255

eventsdc.com

October 29, 2015

Ms. Kathleen Patterson
District of Columbia Auditor
Office of the District of Columbia Auditor
717 14th Street, NW
Suite 900
Washington, DC 20005-3217

Dear Ms. Patterson:

We have reviewed the draft report entitled "Events DC Performance Evaluation" and appreciate the opportunity to comment before the report is finalized. The hospitality industry is a cornerstone of the District of Columbia's thriving economy, and Events DC is proud to be a central player in attracting visitors that annually contribute hundreds of millions of dollars in direct spending within the District.

The audit team focused on three areas of Events DC activities:

1. A comparison of the Walter E. Washington Convention Center's operational performance with data compiled by the International Association of Venue Management (IAVM),
2. A comparison of Events DC's marketing and sales strategy with benchmarks compiled by Destination Marketing Association International (DMAI), and,
3. An analysis of the Marriott Marquis Washington DC's impact on the Convention Center.

Management's comments on the audit recommendations are as follows:

Recommendation:
Events DC should investigate the metrics included to determine if there are any areas where they can improve their financial or operational performance. Additionally, Events DC should continue to perform this type of analysis in the future, using either the IAVM's report or another comparable source of data.

Response:
Events DC participates in formal industry-wide benchmarking (as well as ad-hoc benchmarking within our self-identified peer set) related to the Convention Center's performance, providing us with useful data for evaluating our operations. However, specific to the basis for this particular recommendation, we would like to highlight several issues that we discussed as part of the meetings and interviews conducted by the audit team.

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801 Mount Vernon Place NW
Washington, DC 20001

P 202.249.3000
F 202.249.3235

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Specifically, in performing your review of the Convention Center's operational performance, the audit team used information compiled by IAVM as comparable data. As we shared with the audit team, IAVM was specific and direct in instructing readers of its study that the document was not to be used for comparative purposes in evaluating convention center performance.

> *"There were not enough respondents from the various individual sorting categories (by size and by market) to allow compiling meaningful breakdowns by category. In addition, we did not receive a large enough sampling from venues in the original baseline surveys, so we are not able to reliably compare absolute changes over time."* (IAVM "2013 Operating Expense and Revenue Survey," Executive Summary, page 5)

Of the 74 centers that participated in the survey, only eight – including the Walter E. Washington Convention Center – were in the category of "large" centers, and those respondents did not answer every survey question. This reduces our ability to rely on the information as smaller/medium centers are more concerned with achieving their targeted building rental rates as the major revenue generation for these venues is often limited to local or regional shows that do not attract visitors to their destinations. The larger centers, including ours, often discount the building rental rates in order to bring citywide conventions to their markets, focusing on direct visitor spending for hotels and restaurants and the resulting positive economic impact to their cities. For example, the direct spending generated from visitors who attended the convention and meetings held at the Walter E. Washington Convention Center for FY13 and FY14 was $335.4 million and $276.7 million, respectively, based on a formula that is used by the Destination Marketing Association International and that is an accepted indicator throughout the industry. We believe this is compelling justification for discounting our rental rates in exchange for significant direct spending and other economic benefits for the District.

In addition to the aforementioned concerns, the report included data from two different fiscal years, identifying trends in *operating expenses* between FY10 and FY13, while *operating revenue* trend data compared FY12 and FY13; the identified trends, which did not segregate performance based on venue size, were then used by the audit team to evaluate the Convention Center's FY14 performance. These combined factors distort the IAVM data, thereby making it less reliable.

As noted earlier, management routinely reviews information for convention centers in our competitive set, annually comparing the PwC "Convention and Congress Center Annual Report," which provides benchmarking data that is more

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801 Mount Vernon Place NW
Washington, DC 20001

P 202.249.3000
F 202.249.3255

eventsdc.com

representative given the high number of participants and the segregation of data by convention center size. We will continue to monitor industry publications that reflect the operational and financial trends of our business and make management decisions accordingly.

Recommendation:
[Destination DC] investigate the differences ODCA has identified in Appendix 1 to determine if there are any areas where they can improve their marketing and sales strategy. Additionally, DDC should continue to perform this type of analysis in the future, using either the DMAI's marketing and sales study or another source of compiled data for the destination marketing industry.

Response:
Management is in agreement with the recommendation and will request that Destination DC respond in writing to our team with the results of their analysis for improvements in the marketing and sales strategy.

Finally, regarding the Marriott Marquis Washington, DC, we have always considered having a headquarters hotel connected to the Convention Center as a game changer for the District as it would improve our competitive position among our peers while also providing our customers with the convenience they had sought for a number of years. The bookings have increased and customers who had previously not considered Washington, DC are now being booked to our destination as the report confirmed. The future is bright and we look forward to continued success.

We appreciate the review, guidance and professionalism of the audit team, and we will continue to implement all recommendations that allow us to improve and enhance our operations.

Sincerely,

Gregory A. O'Dell

Gregory A. O'Dell
President and Chief Executive Officer